

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Central Illinois Light Company)	
d/b/a AmerenCILCO)	
)	
Central Illinois Public Service)	
Company d/b/a AmerenCIPS)	Docket No. 10-0517
)	
Illinois Power Company d/b/a)	
AmerenIP)	
)	
Petition for accounting order)	

DIRECT TESTIMONY OF
SCOTT J. RUBIN
ON BEHALF OF
THE PEOPLE OF THE STATE OF ILLINOIS

October 14, 2010

AG Exhibit 1.0

Q. Please state your name and business address.

A. My name is Scott J. Rubin. My business address is 333 Oak Lane, Bloomsburg, Pennsylvania 17815.

Q. By whom are you employed and in what capacity?

A. I am an independent consultant and an attorney. My practice is limited to matters affecting the public utility industry.

Q. What is the purpose of your testimony in this case?

A. I have been asked by the Office of Attorney General (AG) to review the petition filed by the Ameren companies in this docket.

Q. What are your qualifications to provide this testimony in this case?

A. I have testified as an expert witness before utility commissions or courts in the District of Columbia and in the states of Arizona, Connecticut, Delaware, Kentucky, Illinois, Maine, Maryland, New Jersey, New York, Ohio, Pennsylvania, and West Virginia. I also have testified as an expert witness before two committees of the U.S. House of Representatives and one committee of the Pennsylvania House of Representatives. I also have served as a consultant to the staffs of two state utility commissions, several national utility trade associations, and state and local governments throughout the country. Prior to establishing my own consulting and law practice, I was employed by the Pennsylvania Office of Consumer Advocate from 1983 through January 1994 in increasingly responsible positions. From 1990 until I left that Office, I was one of two senior attorneys in that Office. Among my other responsibilities in that position, I had a major role in setting their policy positions on water and electric matters. In addition, I was responsible

for supervising the technical staff of that Office. I also testified as an expert witness for that Office on rate design and cost of service issues.

Throughout my career, I developed substantial expertise in matters relating to the economic regulation of public utilities. I have published articles, contributed to books, written speeches, and delivered numerous presentations, on both the national and state level, relating to regulatory issues. I have attended numerous continuing education courses involving the utility industry. I also have participated as a faculty member in utility-related educational programs for the Institute for Public Utilities at Michigan State University, the American Water Works Association (AWWA), and the Pennsylvania Bar Institute.

Q. Do you have any experience that is particularly relevant to the issues in this case?

A. Yes, I do. I have been the AG's expert witness on cost of service and rate design issues in prior Ameren rate cases. I also have been an expert witness on cost of service and rate design issues in several cases, both in Illinois and in other states that involve utilities with multiple rate areas.

Q. Please summarize your understanding of Ameren's petition.

A. At the time the petition was filed, Ameren had three subsidiary corporations operating in Illinois: Central Illinois Light Company (CILCO), Central Illinois Public Service Company (CIPS) and Illinois Power Company (IP). Each operating utility has separate tariffs for both electric and natural gas service. Those tariffs contain rates that differ significantly from one another. For example, while residential (DS-1) customers pay the same customer and meter charges in all three utilities, the distribution charge per

kilowatt-hour (KWH) is very different among the companies, as shown in the following table.

Rate per KWH for Residential (DS-1) Customers of Ameren Illinois			
	CIPS	CILCO	IP
Summer – all KWH	2.684¢ per KWH	2.394¢ per KWH	3.814¢ per KWH
Non-Summer – 1 st 800 KWH	1.454¢ per KWH	1.528¢ per KWH	2.326¢ per KWH
Non-Summer – Over 800 KWH	0.591¢ per KWH	0.694¢ per KWH	1.642¢ per KWH

Ameren is merging its Illinois operating utilities into a single company to be known as Ameren Illinois Company d/b/a Ameren Illinois. Ameren is requesting permission to stop keeping separate accounting records for each service area and to stop preparing revenue requirement analyses and cost-of-service studies for each service area in future rate cases. Ameren also has indicated that it intends to move toward a single set of statewide rates, though it recognizes that it may take several rate cases to achieve rate consolidation.

Q. Do you support Ameren's request?

A. No, I do not. While I support the general concept of eventually moving toward statewide rates, also known as single-tariff pricing, there are important questions concerning the speed with which rate consolidation is achieved, the impact on customers of moving toward consolidated rates, and the cost basis for that consolidation. As a general matter, utilities are prohibited from charging rates that unreasonably discriminate against different groups of customers. I am advised by counsel that this prohibition is embodied in Illinois law in 220 ILCS 5/9-241 which states, in part: "No public utility shall establish or maintain any *unreasonable difference* as to rates or other charges, services, facilities,

or in any other respect, either *as between localities* or as between classes of service.”

(Emphasis added) The central question for the Commission when considering whether and how to move toward rate consolidation is whether the proposed differences in rates between localities would be reasonable.

Q. What types of factors should the Commission consider in deciding whether a rate difference is reasonable or unreasonable?

A. Generally, commissions look at the characteristics of different groups of customers, which can include their location, usage patterns, peak demand requirements, and others. Typically, all of these factors, and others, are included in a cost-of-service study that estimates differences in the cost of providing service to different groups of customers. A properly performed cost-of-service study can provide an essential piece of information to help a commission determine whether a difference in rates for different types of customers is reasonable or unreasonable.

Q. What does Ameren propose?

A. Ameren proposes to prepare a single cost-of-service study for all of Illinois that would distinguish by customer class, but not by rate area or location. Thus, the results of the type of cost-of-service study Ameren proposes would enable the Commission to determine whether there is a difference in the cost of serving residential customers as compared to commercial or industrial customers. But it would not enable the Commission to determine whether there is a difference in the cost of serving residential customers in CIPS as compared to residential customers in IP.

Thus, Ameren's proposal would remove an essential piece of information from the Commission's decision-making about the reasonableness of rate differences in different locations. In my opinion, it would be much better for the Commission to have this information available, so that it can make a more informed decision about the reasonableness of any rate differences proposed by Ameren, the AG, or other parties.

Q. Do you have experience in rate cases for utilities that have different rate areas?

A. Yes, I do. I have been an expert witness on cost-of-service and rate design in several water utility rate cases where the utility has multiple rate areas that are gradually moving toward single-tariff pricing. For example, the two largest water utilities in Pennsylvania, Pennsylvania-American Water Co. (PAWC) and Aqua Pennsylvania Inc. (AP), each have numerous rate areas as a result of acquiring different water utilities. Similarly, the largest water utility in Illinois, Illinois-American Water Co. (IAWC), continues to have multiple rate areas. My experience in such cases in these two states, however, is very different.

In Pennsylvania, the Public Utility Commission has permitted PAWC and AP to keep a single set of accounting records for the entire state. In their rate cases, PAWC and AP have a single set of revenue requirements exhibits and a single cost-of-service study for the entire state. The cost-of-service study does not distinguish among rate areas, only among customer classes on a system-wide basis. Thus, there is no information about differences in the cost of providing service in different rate areas. The movement toward single-tariff pricing in the Pennsylvania cases is treated solely as a matter of public policy that is divorced from the cost of service. That policy question looks at rate impacts on affected customers and frequently sets general guidelines about how long it is "reasonable" to maintain a separate rate area (for example, the Pennsylvania commission

might state that rates for a particular area should be consolidated with the main system rate over the next two rate cases).

Q. How does the Illinois Commerce Commission deal with utilities that have separate rate areas?

A. In Illinois, an IAWC rate case presents a separate revenue requirement for each service area. In most cases, IAWC or Staff also prepares a separate cost-of-service study for each rate area. In my experience in Illinois, the movement toward single-tariff pricing occurs not solely as a matter of policy (as it does in Pennsylvania), but also is informed by cost differences among the rate areas. In Illinois, when the rates in two rate areas become relatively close, then this Commission can determine that it is reasonable for the rates (or some portion of the rates, such as the customer charge) to be consolidated. Over time, as different types of investments are made in different service areas, then costs are likely to move closer together.

Q. In your opinion, is one of these approaches preferable to the other?

A. Yes. In my opinion, I find the approach taken by this Commission with IAWC to be preferable to the Pennsylvania approach. The cost of service is a critically important piece of information in setting utility rates, particularly where different rates are being set for customers in different locations or with different characteristics. While factors other than cost may be appropriate for the Commission to consider, I believe that cost should be a major consideration in the Commission's decision-making process.

Moreover, cost information provides an explanation for rate differences that consumers can readily understand. If it costs more to provide service in IP's service area

than in CILCO's service area, for example, then consumers can understand why the rates need to be different. Removing that cost information, as Ameren proposes, makes it difficult to explain to consumers why rates are different in different locations. It can be particularly important to have specific cost justifications for location-based rate differences when commercial or industrial customers are involved, since they may be competing with one another.

Q. What do you recommend?

A. I recommend that the Commission deny Ameren's petition. At this time, the Commission should require Ameren to keep separate accounting records for each rate area, prepare a separate revenue requirement for each rate area, and provide a separate cost-of-service study for each rate area. Over time, if rates move closer together and rate areas are consolidated, then the recordkeeping and rate-filing requirements would apply only to the consolidated rate area. For example, if in a future rate case CIPS and CILCO rates move closer together, those rates can then be consolidated, and from that point forward the accounting records and rate filings for those service areas can be combined.

Q. Does this conclude your direct testimony?

A. Yes, it does.